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TREASURY FOR AMBASSADOR ALAN HOLMER
TREASURY FOR DEPUTY CHIEF OF STAFF TAIYA SMITH
TREASURY FOR OASIA/INA DOHNER, HAARSAGER, WINSHIP, CUSHMAN
USDOC FOR ITA DAS KASOFF
USDOC FOR 4420 ITA/MAC/OCEA MCQUEEN
USDOC FOR PTO DUDAS, ANTHONY, WU
HHS FOR OFFICE OF THE SECRETARY
LABOR FOR ILAB
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DOE FOR OFFICE OF THE SECRETARY - MOLLY WILLIAMSON
DOE FOR PUMPHREY, HARBERT
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SUBJECT: SECRETARY PAULSON, VICE PREMIER WU YI DISCUSS
STRATEGIC ECONOMIC DIALOGUE ISSUES AND PREPARATIONS, MARCH
7, 2007

Classified By: DEPUTY CHIEF OF MISSION DAVID S. SEDNEY, REASONS 1.4 B A
ND D.

¶1. (C) Summary. In a March 7 meeting at Beijing Capital International Airport, Secretary of the Treasury Henry M. Paulson urged Vice Premier Wu Yi to offer more liberalization of Chinese services sectors, highlighting financial services, civil aviation and environmental services in preparation for the May Washington meeting of the Strategic Economic Dialogue (SED). He also called for accelerated bilateral cooperation on environment and energy issues, proposing that the United States and China agree to jointly announce a zero tariffs proposal for environmental protection equipment. He urged more rapid appreciation of the renminbi and improved IPR protection and enforcement in China.

¶2. (C) Summary continued. Vice Premier Wu Yi, frequently interspersing her replies with criticisms of the United States Congress:

- said China will seriously consider all the foregoing proposals, whether in financial services, non-financial services, civil aviation, energy, the environment or other sectors;
- said that the Joint Commission on Commerce and Trade IPR working group could meet in April to continue discussions of

IPR market access and enforcement concerns. If the United States initiates a formal WTO dispute settlement case against China on IPR issues, China will vigorously defend itself at the WTO;

- rejected the zero tariffs proposal, saying such an action without prior consultation with other WTO or APEC members would constitute imposition of pressure on those nations; the Secretary rejoined that many countries would welcome such

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environmental leadership from the United States and China;

- foresees additional cooperation on energy matters, including Strategic Oil Reserves, though she rejected re-stating China's energy efficiency goals in terms of greenhouse gas emissions;

- declined to discuss the pace of renminbi appreciation, merely saying that the Chinese Government's position is well known and that People's Bank of China Governor Zhou Xiaochuan could address the issue with the Secretary in Shanghai later in the week; and

- said nonetheless, China will develop a short list of near-term deliverables to help prepare for a successful SED II meeting in Washington in May. End summary.

13. (C) Vice Premier Wu Yi welcomed Secretary Paulson and noted she had requested leave from the annual meeting of the National People's Congress for this important meeting at the airport. She had brought a team of six officials with full ministerial rank and four officials of vice minister rank (delegation lists at end of report). Secretary Paulson praised the Vice Premier's energetic leadership and

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emphasized how much he looks forward to working with her over the next two years on the SED. The Secretary then turned to a discussion of the political climate in the United States and specific areas where progress could address political concerns and show tangible movement towards principles that both sides have agreed to pursue in the SED.

Secretary's Overview of Issues

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14. (C) Election season is already underway in the United States. With economic changes in the United States, widening income gap, and little improvement in the average worker's economic situation, the American public is blaming globalization for its economic complaints - and China is the face of globalization. Anti-China sentiment is higher than he had anticipated, the Secretary underscored. American politicians are quick to seize on China issues for domestic purposes. Against that backdrop, the Administration is eager to attain deliverables and to take up Wu Yi's offer to meet with Members of Congress at the time of SED II in Washington. Knowing areas of progress in advance of the SED II would make scheduling of meetings with Congressional critics more beneficial.

15. (C) The Secretary then outlined areas in which the United States seeks progress before and at SED II:

- Services -- financial services, non-financial services, civil aviation, environmental services highlighted.

- Environment and energy issues - accelerated cooperation in areas in which already engaged; proposed joint announcement of commitment to reduce tariffs to zero for environmental protection equipment in a multilateral context such as the WTO Doha Development Agenda negotiations; carbon sequestration and conversion of Chinese energy efficiency

targets to carbon emissions goals; energy security cooperation and work together on strategic petroleum reserves issues; more cooperative work on clean coal technologies.

-- Faster RMB Appreciation

16. (C) The Secretary noted that through March 7, the renminbi had appreciated seven percent since the July 2005 reform of China's exchange rate mechanism was introduced.

-- IPR Protection and Enforcement

17. (C) The Secretary concluded his issues overview by highlighting USG concerns about IPR protection and enforcement in China, recounting his recent discussion with USTR Susan Schwab. IPR concerns in market access and enforcement need to be managed and ideally, amicably resolved before the next SED. If they cannot be resolved, it is important to learn that early, too. The United States does not want to file a WTO case on China IPR on the eve of or immediately after SED II.

Vice Premier: Researching More on Services

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18. (C) Vice Premier Wu Yi began her rejoinder by stressing that the Chinese side will seriously study all proposals made by the United States, whether in financial or non-financial services, energy or environment or other sectors. As Special Representatives of the respective countries, she and the Secretary must firmly carry out the tasks agreed to by our

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heads of state, namely, the SED will look at long-term, cross-cutting strategic economic issues affecting both nations. Clearly the United States had a strong interest in short-term results at the first SED meeting in December, results that could be used to deal with the United States Congress. China will seriously study all the areas just mentioned, Wu Yi repeated, adding civil aviation to the list that she reiterated. Some short-term outcomes can be agreed through joint efforts. She then digressed into criticisms of the naivete and ignorance of some Members of Congress and urged additional explanations by the Administration addressed to Congress. Some Members of Congress lack a comprehensive view of United States interests. The United States has led and been the biggest beneficiary of globalization, but Members of Congress raise questions relating to getting re-elected. China will continue to uphold the principle of mutual benefit and win-win outcomes. China closely follows United States expectations and concerns and is trying to find convergence points. Now Members of Congress are trying to put pressure on China, even calling for an IPR case at the WTO. Go ahead, the Vice Premier bluntly said, China will be strong in defending itself in WTO Dispute Settlement proceedings.

IPR

19. (C) I am in charge of intensifying IPR protection in China, Wu Yi continued. Much effort and time has been expended on this issue, and important results have been achieved. Continuing discussion of IPR issues in an April meeting of the Joint Commission on Commerce and Trade (JCCT) IPR Working Group should be possible.

No to Zero Tariffs Proposal

110. (C) China cannot agree to the zero-tariff proposal, whether in the WTO Doha round, in APEC or in another multilateral forum. Without prior discussions with other members of the rest of the members of whichever multilateral

organization, such an announcement by China and the United States would be no different than imposing pressure on those members.

No Greenhouse Gas Emission Targets; Other Energy

Cooperation Possible

¶11. (C) With respect to greenhouse gases, China's energy efficiency goals have already been laid out in the current

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Five-Year Plan (5YP). China's goal is to build a resource-conserving, energy-efficient economy. Indicators already specified in the 5YP include sulfur dioxide emissions and chemical oxygen demand (COD).

¶12. (C) China is ready to do its part in these fields. China has just entered industrialization, while the United States is in a post-industrial stage. Though China is still a developing country, China signed the Kyoto Protocol. The United States, the largest developed country, is outside the Kyoto Protocol.

¶13. (C) The Vice Premier said she saw little problem in cooperating on strategic petroleum reserve issues, clean coal technology and other relevant energy areas. She noted existing good cooperation in some energy-related areas.

RMB Appreciation

¶14. (C) As for the RMB exchange rate, the Vice Premier tersely commented that the United States should already be clear about the Chinese position on exchange rate reform. People's Bank of China Governor Zhou Xiaochuan would accompany the Secretary to Shanghai and speak more about this topic.

Short List of Deliverables Under Preparation

¶15. (C) With a view to have a successful second SED, China will have a short list of near-term deliverables. The Vice Premier added that she hopes the Secretary will tell Members of Congress that the current situation is different from the past: imposing pressure on China and using anti-China statements will bring no benefits. Cooperation needs to be intensified. One needs to respect the other side, identify convergence points, and seek mutual benefits and win-win outcomes.

¶16. (C) The Secretary responded to three of the Vice Premier's points. On the zero-tariff proposal, he observed that following his recent G-7 meeting and hearing views expressed there, he believes that most countries would applaud such environmental leadership by the United States and China, not criticize such an announcement. European countries are particularly keen on environmental issues and public opinion might move them to follow such leadership quickly. Greenhouse gas arithmetic should not be difficult. Regarding potential progress in services, the United States is primarily aiming for new developments. However, in some areas, the United States believes that regulatory revisions have hindered expected market access, and with respect to credit card services, the issue is much more black and white about whether China has met its WTO commitments. These areas need to be kept in mind as we move forward. (Comment: While Wu Yi clearly said that she does not want to discuss the zero-tariff proposal outside the multilateral forum, she has not ruled it out and her staff has indicated a willingness to discuss further and a desire to understand why taking

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leadership on this issue will benefit China. End comment.)

SED II Preparations in Washington

¶17. (SBU) Turning to preparations for the upcoming SED meeting in Washington, the Secretary expressed pleasure about the agreement on themes reached over the preceding week in Beijing. He stressed the importance of reaching agreement on new deliverables well before the May meeting to help manage public expectations. He stressed the importance of public statements supportive of agreed SED principles, and quoted from Premier Wen Jiabao's January 19, 2007 speech at the National Economic Working Conference ("... actively and steadily open up the financial industry to the outside world and raise the quality and level of opening up...") as a particularly helpful statement that has beneficially resonated with outside observers. He urged that action on the four agreed deliverable from SED I be completed quickly, namely, Futuregen cooperation; opening of NYSE and NASDAQ offices in China; United States support for China joining the IADB; and active negotiations to liberalize civil aviation in the United States - China market.

¶18. (SBU) In response to China's requests, the United States is discussing the issues Chinese officials have raised about visas; the Secretary said he has personally raised the issue with Secretaries Rice and Chertoff. Secretary Gutierrez and the Commerce Department are working on export control issues.

¶19. (SBU) The many working groups between the two sides should have the good discipline of making concrete progress. Each should be able to say it is working on long-term goals, perhaps years in attainment, but still be able to show progress in cross-cutting ways in the interim.

¶20. (SBU) Development of working relations at all levels between the two sides has been an important and tangible benefit, the Secretary concluded. The objective should be that the SED is viewed as so important and so effective that it will be continued after the next United States Presidential election. The SED can be a long-term process only if it works for both of us. He reiterated his commitment to working with the Vice Premier toward that end.

¶21. (C) The Vice Premier concurred that themes have been agreed for SED II. Analysis on subtopics thereunder continues. SED I had identified three types of outcomes. China has intensified efforts to give a positive push to all three types of outcomes. Wu Yi expressed particular appreciation for the Secretary's efforts regarding China's admission to the IADB. Wu Yi said China wants to pool its efforts with the United States side to achieve concrete results. The participation of so many Chinese Ministers at the meeting is a demonstration of China's sincerity.

¶22. (U) LIST OF CHINESE PARTICIPANTS

Vice Premier Wu Yi
Minister of Finance Jin Renqing

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Minister of Commerce Bo Xilai
People's Bank of China Governor Zhou Xiaochuan
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Vice Minister of Foreign Affairs Yang Jiechi
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¶23. (U) LIST OF UNITED STATES PARTICIPANTS

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¶24. (U) This meeting report has been cleared by Treasury.

RANDT